

# United States Senate

WASHINGTON, DC 20510

January 29, 2008

Raymond W. McDaniel, Jr.  
Chairman and Chief Executive Officer  
Moody's Corporation  
7 World Trade Center  
250 Greenwich Street  
New York, NY 10007

Dear Mr. McDaniel:

I write today to urge you to improve the clarity of your municipal bond ratings by providing conversion charts for tax-exempt municipal bonds just as you do for taxable municipals. While a chart may not be able to provide a definitive conversion rating, providing a chart for use as a general rule will improve the clarity of information available to the municipal bond market. The municipal bond rating scale is much more detailed and offers many more distinctions than the rating scale for corporate bonds. While the additional information provided would ordinarily be considered a positive aspect of this scale, the ratings received by municipal bonds are as a result often lower, which could lead to higher costs for municipal bond issuers and ultimately the taxpayers.

Moody's already provides a conversion chart for taxable municipal bonds that allows investors to quickly and easily determine how the risk associated with a particular taxable municipal bond compares to a corporate bond. This system allows investors to accurately price the risk on taxable municipal bonds without forgoing the additional information provided by the municipal bond rating scale.

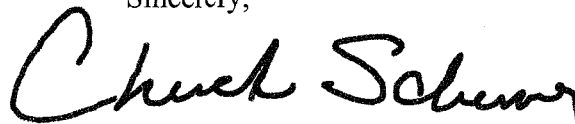
However, no such conversion chart exists for tax-exempt municipal bonds. Thus tax-exempt municipal bond investors have a much more difficult time judging how the risk of these bonds compares with others in the market. As a result, market forces may drive some municipal bond issuers to buy bond insurance to reduce this uncertainty or to pay higher interest rates to compensate investors for this perceived higher risk, when in reality municipal bonds are some of the safest investment instruments in the market. These unnecessary costs are borne not by companies or investors, but instead by the taxpayers in the municipalities issuing the bonds.

I have heard reports that other ratings agencies, including Standard & Poor's and Fitch, also treat municipal bond ratings differently than corporate bond ratings, but that they do so less explicitly. I would encourage all of the ratings agencies to offer unquestionably clear information to the markets about the relative risks of all types of bonds.

At a time when many policymakers, myself included, are proposing to increase the volume cap on tax-exempt private activity housing bonds in response to the subprime mortgage crisis, it is critical that unnecessary costs are eliminated. These bonds will provide the capital necessary to help troubled homeowners refinance out of unaffordable loans, and in my proposal, will also fund the construction of affordable multifamily housing units so that those people forced to leave their homes will have a safe affordable rental unit to move into in their time of need. Every additional dollar spent on bond insurance or interest costs takes a dollar away from families in need of assistance.

I recognize that Moody's is not the only rating agency that treats municipal bonds differently than corporate bonds, but it is the most explicit in that different treatment. By providing a conversion chart for the tax-exempt bonds, Moody's could achieve the best of all outcomes by providing all of the additional information contained in its municipal ratings scale without any of the confusion that the scale might create. I strongly urge you to quickly create and distribute a conversion scale so that the relative risks of tax-exempt municipal bonds are well understood in the market.

Sincerely,

A handwritten signature in black ink that reads "Chuck Schumer". The signature is fluid and cursive, with the first name "Chuck" and last name "Schumer" clearly legible.

Charles E. Schumer  
United States Senator

CC: Standard & Poor's Rating Agency  
Fitch Ratings Agency